

**December 11, 2012**  
**Audit Oversight Committee Minutes**  
**Durham County**

**I. Call to order**

The meeting was called to order at 3:35 p.m. in the County Manager's 2<sup>nd</sup> Floor Conference Room; 200 East Main Street, Durham, NC 27701.

**II. Members**

Present:

Manuel Rojas, Chair; Harrison Shannon; Commissioner Foster; Commissioner Reckhow;  
Michael M. Ruffin, County Manager

Others Attending:

Marqueta Welton, Deputy County Manager  
George Quick, Finance Director  
Michael Becketts, Social Services Director  
J. Scott Duda, Cherry, Bekaert & Holland Representative, Presenter  
April Adams, Cherry, Bekaert & Holland Representative, Presenter  
Richard Edwards, Internal Audit Director  
Brian Welch, Internal Auditor

Absent:

William Pierce, Vice Chair

**III. Business**

**A. Prior Meeting Minutes.**

Commissioner Reckhow moved and Mr. Shannon seconded the motion to approve minutes for the September 11, 2012 AOC meeting. The voice vote carried and the minutes were approved.

**B. Election of Officer Secretary FY2013**

Mr. Rojas nominated Mr. Shannon as AOC Secretary. The voice carried unanimously and Mr. Shannon will serve as the AOC Secretary in FY2013.

**C. External Auditor Briefing on CAFR (J. Scott Duda, Cherry, Bekaert & Holland Representative)**

Mr. Duda, a representative of the Cherry, Bekaert, & Holland firm made a presentation of the 2012 audit results. The single audit identified one material finding. This finding was an adjustment made for \$21 million dollars of CIP which was not removed in FY2010 when assets related to the schools were returned. Mr. Duda noted the error was caught by the County's Finance Department, the necessary adjustments were made, and these adjustments do not impact the County's Fund Balance ratio. There were a number of contributing factors which lead to this error; among them a change in the capital asset manager and an SAP system conversion.

During his presentation Mr. Duda noted several recommendations based on the audit of information technology controls. The recommendations to the County were:

1. Provide users with on-going user security awareness training,
2. Perform a formal risk assessment of the current information technology environment,
3. Implement controls to mitigate the risk from segregation of duties conflicts, and
4. Perform an annual review of access privileges for all users to the SAP ERP.

Mr. Duda told the Committee that the recommendations are based on best practices. They were not based on material risks to the County. Mr. Ruffin stated the County's ERP resources are stretched very thin. During the next fiscal year, FY2014, the County will likely merge the SAP and IT departments. At this time, a Chief Information Technology Director will be hired and the recommendations of this audit will likely be addressed at that time.

Discussion arose regarding the audits of the Volunteer Fire Departments. Mr. Duda stated that the VFDs are being audited independently from the County. April Adams, a CBH representative, explained to the Committee that some of the VFDs have completed their audits; however, three are still outstanding.

Commissioner Reckhow raised a question to determine what entity was paying for the audits. Mr. Quick, Finance Director, said the audits are currently being paid for by the County, but the additional tax revenue collected from the various fire districts will be used to reimburse the County for these audits.

**D. Briefing on DSS Gift Card Controls and Temporary Hire Practices (Michael Becketts, DSS Director)**

*Gift cards*

Mr. Becketts, DSS Director, provided an update to the Committee on the status of two audit recommendations arising from the March 2012 DSS audit report; better controls over gift cards and more efficient hiring practices of temporary hires by using the County's Human Resources Department instead of outside agencies.

Currently, all purchases of gift cards are made through a procurement card. Mr. Becketts said he is approving the use of gift card purchases for the purpose of oversight. Policies have been instituted which have reduced the number of individuals with access to procurement cards and also the number of individuals tasked with gift card purchases. The department is continuing to implement tighter controls over purchase cards. Mr. Becketts said his staff will undergo training regarding gift card purchasing and by January 7<sup>th</sup> his department will have a new plan fully in place to help insure proper use and storage of the gift cards.

*Temporary Hires*

Mr. Becketts reported that DSS has reduced the number of temporary hires made through outside agencies considerably. His department is using the County's HR department to make temporary hires when feasible. In some instances, his department is filling previously temporary vacancies with permanent staff. One issue his department is still attempting to resolve is the temporary rehiring of retirees. Under certain conditions retirees with a special

skill set are asked to perform duties temporarily. In these instances, temporary rehire through the County's HR department will affect their retiree benefits. Mr. Becketts is looking for a way to obtain these people's services without impacting their retirement benefits.

**E. Enterprise Risk Assessment (Michael Ruffin, County Manager)**

Mr. Ruffin told the Committee that he believes at this time the cost of a formal enterprise risk assessment will exceed the benefits it will have for the County. His plan is to have the County assess operational risks internally. At the next leadership meeting, Mr. Ruffin will notify department heads of this county-wide project and ask each of them to evaluate risks within their respective departments. Mr. Ruffin and the Deputy County Managers, Marqueta Welton and Lee Worsley, will be responsible for evaluating the assessments made by the individual departments they oversee. Mr. Edwards, Internal Auditor, will act in an advisory capacity.

**F. Social Media**

Mr. Edwards requested that the discussion of social media be deferred until the Committee's next meeting in March 2013. However, Mr. Edwards informed the Committee that a Plan was being worked on to consider the issue. The IT department, where social media controls lie, is in transition with the SAP upgrade and other organization matters which may affect the date the policy is completed and implemented.

**G. Contract Solicitation and Award Audit Report (Richard Edwards, Audit Director)**

Mr. Edwards stated that the audit of the County's Contract solicitation and awards processes did not find instances of unfair practices or procedures; however, there were areas where the County needs to improve. The audit found errors in calculation of some of the bid scores. However, these errors did not affect the outcome of the award. The County does not retain complete records for all the competitive bids. And the county does not have a formal policy to govern solicitation and awards procedures. These deficiencies resulted in the following recommendations for the Purchasing Division:

1. Design and implement a quality control process,
2. Retain records for all competitive solicitations, and
3. Develop a solicitation and awards policy.

**H. Status of Audit Recommendations (Richard Edwards, Audit Director)**

Mr. Edwards provided the Committee with the status of six open recommendations. They were in various stages of implementation. One open recommendation regarding separation of purchasing and receiving functions at the department level was discussed from a standpoint of its feasibility for smaller departments. The Committee did not strike the recommendation but some members questioned the feasibility for small departments that purchase only smaller items mostly for administrative purposes. The auditor is reconsidering the across-the-board recommendation and may fashion it to the several larger departments where the policy would be most efficient.

**I. Old and New Business**

Mr. Shannon wanted the Committee to decide on a date in January wherein the Committee could attend a retreat. The Committee decided that due to the potential selection of a new commissioner which would serve on the Committee, they would postpone the retreat to a date in February.

**J. Next Meeting Date:** March 12, 2013 @ 3:30 p.m.

**IV. Adjournment**

There being no further business, the meeting was adjourned at approximately 5:31 p.m.